Table 3: Comparison of OASDI Beneficiaries And Covered Workers for Selected Years, 1945-2060

Calendar year	Beneficiaries[1] (in thousands)				Covered workers per OASDI beneficiary	Beneficiaries per 100 covered workers
	Covered workers[2] (in thousands)	OASDI[3]	DI[4]	Total		
1945	46,390	1,106	a	1,106	41.9	2
1950	48,280	2,930	a	2,930	16.5	6
1960	72,530	13,740	522	14,262	5.1	20
1970	93,090	22,618	2,568	25,186	3.6	28
1980	114,300p	30,384	4,734	35,118	3.3p	31p
Alternative I:						
1982	116,004	31,476	4,370	35,845	3.2	31
1990	137,093	36,069	4,053	40,122	3.4	29
2000	146,513	38,585	4,803	43,388	3.4	30
2005	151,749	40,066	5,506	45,572	3.3	30
2010	155,761	43,234	6,140	49,374	3.2	32
2015	158,066	48,449	6,552	55,001	2.9	35
2020	159,894	54,608	6,722	61,330	2.6	38
2030	167,424	64,647	6,404	71,051	2.4	42
2040	178,967	65,587	6,679	72,266	2.5	40
2050	191,223	66,554	7,289	73,843	2.6	39
2060	205,183	69,974	7,676	77,650	2.6	38
Alternative II-A:						
1982	115,955	31,482	4,375	35,857	3.2	31
1990	133,921	36,431	4,126	40,557	3.3	30
2000	144,133	39,823	5,193	45,016	3.2	31
2005	148,771	41,745	6,031	47,776	3.1	32
2010	151,577	45,376	6,753	52,129	2.9	34
2015	152,296	51,070	7,205	58,275	2.6	38
2020	152,100	57,789	7,372	65,161	2.3	43
2030	154,100	69,188	6,946	76,134	2.0	49
2040	158,430	71,497	7,073	78,570	2.0	50
2050	162,023	73,079	7,392	80,471	2.0	50
2060	166,318	75,258	7,422	82,680	2.0	50
Alternative II-B:						
1982	115,308	31,483	4,374	35,857	3.2	31
1990	132,410	36,428	4,138	40,566	3.3	31
2000	142,248	39,814	5,191	45,005	3.2	32
2005	146,798	41,725	6,028	47,753	3.1	33
2010	149,515	45,359	6,748	52,107	2.9	35
2015	150,148	51,048	7,198	58,246	2.6	39
2020	149,873	57,753	7,361	65,114	2.3	43
2030	151,750	69,138	6,934	76,072	2.0	50
2040	156,015	71,440	7,061	78,501	2.0	50
2050	159,545	73,034	7,380	80,414	2.0	50
2060	163,778	75,215	7,410	82,625	2.0	50
Alternative III:						
1982	115,178	31,496	4,376	35,872	3.2	31
1990	130,300	37,125	4,246	41,371	3.1	32
2000	140,370	42,415	5,560	47,975	2.9	34
2005	144,254	45,360	6,510	51,870	2.8	36
2010	145,600	50,080	7,293	57,373	2.5	39
2015	144,295	56,934	7,759	64,693	2.2	45
2020	141,475	64,913	7,898	72,811	1.9	51
2030	136,560	79,327	7,324	86,651	1.6	63
2040	132,593	84,945	7,214	92,159	1.4	70
2050	126,971	89,022	7,071	96,093	1.3	76
2060	121,968	90,672	6,587	97,259	1.3	80

[1]Beneficiaries with monthly benefits in current-payment status as of June 30.
[2]Workers with taxable earnings at some time during the year.
[3]Retired-worker beneficiaries and their spouses, and children and survivors of retired, disabled and deceased workers.
[4]Disabled-worker beneficiaries and their spouses and children.
[5]Disability benefits did not become available until 1957.
p—Preliminary.
Source: *1982 Annual Report of Trustees of OASDI Trust Funds*, pp. 65 and 66.

Table 4: Estimated Cost Rates of the OASDI System under Alternative II-B and Comparison with Tax Rates, Years 1982-2060

(as percent of taxable payroll)

Calendar year	Estimated cost rate			Scheduled Tax rate	Difference[1]
	OASI	DI	Total		
Alternative II-B:					
1982	10.42	1.36	11.78	10.80	−0.98
1983	10.38	1.27	11.65	10.80	− .85
1984	10.42	1.21	11.63	10.80	− .83
1985	10.52	1.18	11.70	11.40	− .30
1986	10.55	1.16	11.71	11.40	− .31
1987	10.57	1.14	11.71	11.40	− .31
1988	10.56	1.12	11.68	11.40	− .28
1989	10.55	1.11	11.66	11.40	− .26
1990	10.54	1.10	11.64	12.40	.76
1991	10.49	1.10	11.59	12.40	.81
1992	10.43	1.11	11.54	12.40	.86
1993	10.39	1.12	11.51	12.40	.89
1994	10.33	1.13	11.46	12.40	.94
1995	10.27	1.14	11.42	12.40	.98
1996	10.18	1.17	11.35	12.40	1.05
1997	10.07	1.20	11.27	12.40	1.13
1998	9.96	1.23	11.19	12.40	1.21
1999	9.85	1.25	11.10	12.40	1.30
2000	9.75	1.28	11.03	12.40	1.37
2001	9.66	1.30	10.96	12.40	1.44
2002	9.58	1.32	10.90	12.40	1.50
2003	9.52	1.35	10.87	12.40	1.53
2004	9.48	1.39	10.87	12.40	1.53
2005	9.50	1.44	10.95	12.40	1.45
2006	9.53	1.46	10.99	12.40	1.41
2010	9.94	1.59	11.53	12.40	.87
2015	11.12	1.69	12.82	12.40	− .42
2020	12.72	1.73	14.44	12.40	−2.04
2025	14.29	1.68	15.97	12.40	−3.57
2030	15.23	1.60	16.83	12.40	−4.43
2035	15.45	1.57	17.02	12.40	−4.62
2040	15.20	1.59	16.80	12.40	−4.40
2045	15.03	1.63	16.66	12.40	−4.26
2050	15.09	1.63	16.72	12.40	−4.32
2055	15.21	1.60	16.81	12.40	−4.41
2060	15.22	1.59	16.81	12.40	−4.41
25-year averages:					
1982-2006	10.14	1.23	11.37	12.01	.64
2007-2031	12.43	1.65	14.08	12.40	−1.68
2032-2056	15.20	1.61	16.81	12.40	−4.41
75-year average:					
1982-2056	12.59	1.50	14.09	12.27	−1.82

[1]The tax rate minus the OASDI cost rate. Positive differences are referred to as surpluses, and negative differences, as deficits.
Source: *1982 Annual Report of Trustees of OASDI Trust Funds*, p. 64.

Mid-Range and Longer Range Outlook

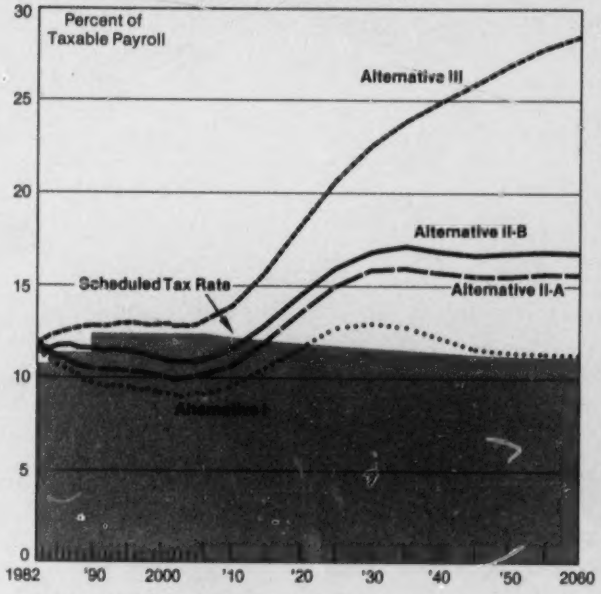
Once the short-range funding problem is solved—by the late 1980's or early 1990's—the income of the OASI and DI programs for the succeeding 20 years is likely to rise faster, on average, than the expenditures of the two programs, according to the projections of the Trustees'

report. All the alternatives—except Alternative III—project that the combined OASI and DI trust funds should be financially sound from approximately 1990 to 2010 (Chart 1).

Starting around 2010, when the "baby boom" generation begins to retire, the number of beneficiaries will grow at a substantially faster pace than the number of covered workers. Consequently, by 2010, the number of covered workers per OASDI beneficiary—which has been hovering between 3.2 and 3.4 in recent years and is expected to remain at those levels for the next quarter of a century—will start falling significantly. According to the Alternative II-B projection, the number of workers per beneficiary will drop from 3.1 in 2005 to 2.0 by 2030. Conversely, for every 100 workers paying social security taxes, there would be 33 beneficiaries in 2005 compared to 50 in 2030 (Table 3 on page 7).

By the year 2015 it is expected, under Alternative II-B, that OASDI expenditures will again outstrip OASDI revenues from payroll taxes—and deficits will start to mount unless legislative changes intervene (Table 4). Some of the major recommendations to restore the social security system's fiscal integrity appear in the following pages.

Chart 1: Estimated Cost Rates of the OASDI System Under Four Alternative Projections Compared with Scheduled Rates, 1982-2060



Source: *1982 Annual Report of Trustees of OASDI Trust Funds*, Table 29

Recommendations for Eradicating the Deficits

WHILE A PLETHORA of remedies for both the short-term and long-term deficits have been offered by a wide range of concerned private organizations, government agencies, special study groups, congressional committees, and individuals, the following discussion is confined to what are considered major recommendations. A major recommendation, in this context, is one that is expected to make a sizable contribution toward the elimination of deficits.

Each recommendation is presented with arguments for and against it. Even though these pros and cons represent the perceptions of informed groups or individuals, some may contain statements that are, in fact, popular misconceptions or unproven speculations. When any of the pros or cons contains a factual error or an untested assumption, the author indicates this in *italic* type. Also, when further comment or explanation regarding an argument seems appropriate, the author will present that in *italics* as well.

Raising the Retirement Age

Raising the age for receipt of full social security retired-worker benefits, which is currently 65, has been one of the most common recommendations for easing the upward pressure on costs of the social security system.[7] Suggestions of what the revised age should be generally cluster around three figures—67, 68, and 70. However, 68 is favored by most of the supporters of this recommendation.

While a variety of ways of accomplishing such a change have been offered, perhaps the two most prevalent are: (1) raise the age for unreduced benefits from 65 to 68 and, for actuarially reduced benefits, from 62 to 65; or (2) raise the eligibility age for full benefits to 68, while allowing actuarially reduced benefits to continue to be available starting at age 62.[8]

In the first option, benefits would be reduced by 6 2/3 percent for each year of entitlement before age 68.[9] Therefore, at age 65, benefits would be 80 percent of the unreduced amount that would otherwise be received at age 68. In the second option, the actuarial reduction would be available beginning at age 62, when the recipient would get 60 percent of the unreduced benefit. (Currently, retirement at age 62 entitles the recipient to benefits that are 80 percent of the full amount that would be received at age 65.)

The overwhelming majority of the proponents of raising the entitlement age include the proviso that its introduction not be precipitous. Such legislation, they stress, must not affect workers who are approaching retirement since ample time has to be allowed for current workers to plan for such a fundamental change. The National Commission on Social Security recommended that the transition to age 68 should not begin until the year 2000, at which time it would start being phased in by raising the age of eligibility for full benefits by a quarter of a year annually.[10] Therefore, by the year 2012, the new ages—68 for full benefits and 65 for actuarially reduced benefits—would become fully effective. The President's Commission on Pension Policy suggested that the 12-year phase-in period start in 1990.[11]

The primary arguments offered by advocates of raising the age of eligibility are:

(1) People are living longer today then they did some 40 years ago when social security retired-worker benefits first became available. Official estimates show that life expectancy at age 65 has risen by three-and-a-half years in the past four decades—it was 12.8 years in 1940 compared to 16.4 years in 1980.[12] Hence, on average, people at age 68 today have at least as many remaining years of life as their counterparts had at age 65 forty years ago. Moreover, the average number of years of remaining life at age 65 is expected to continue to inch up in the decades ahead. According to the middle-range projections of the Office of the Actuary of the Social Security Administration, persons aged 65 in the year 2010 may be expected to live, on average, 19.0 years, or 2.6 years more than today.[13]

(2) Older people are in better health than they were 40 years ago. *While this argument has been propounded by*

[7]Some of the major advocates of this proposal are: National Commission on Social Security; The President's Commission on Pension Policy; The Advisory Council on Social Security; Committee for Economic Development; The Business Roundtable.

[8]On average, the lifetime yield of benefits that are actuarially reduced is equivalent to the lifetime yield of unreduced benefits.

[9]The reduction would be at the rate of 5/9 of 1 percent monthly, or 6 2/3 percent annually.

[10]The National Commission on Social Security—not to be confused with the more recently formed National Commission on Social Security Reform, mentioned earlier—was a bipartisan commission of nine private citizens formed by Congress in December, 1977. Its task was to conduct an intensive study of the social security system and related programs. The Commission's findings and recommendations appear in its final report, *Social Security in America's Future*, March, 1981.

[11]The President's Commission on Pension Policy was created in 1979—for a two-year period—to study U.S. retirement, survivor and disability systems and to propose recommendations for national retirement income policies. Its final report in February, 1981, was *Coming of Age: Toward a National Retirement Income Policy*.

[12]In 1940, it was 12.1 years for men and 13.6 for women; in 1980, it was 14.1 and 18.4, respectively.

[13]In 2010, life expectancy at age 65 is 21.6 years for women and 16.1 years for men.

several groups, its accuracy is still problematic. (See item 1 below.)

(3) Raising the retirement age would yield benefits beyond cost saving. Work is intrinsically beneficial for older people who are in reasonably good health, and those who remain in the labor force are happier and stay healthy longer than their counterparts who retire. *This is apparently a widespread perception, but whether it is an accurate one has not yet been established.* (See item 2 below.)

(4) Demand for older workers will start to pick up later in this decade as the growth in the labor force starts decelerating, reflecting the low birth rates since the mid-1960's.

But those opposed to raising the age of eligibility point out that:

(1) Increased longevity, together with substantial medical advances during the past four decades, does not constitute evidence that older persons are healthier today than they were in 1940. Advances in medical technology and drug therapy may have been influential in prolonging life so that the proportion of people surviving into their seventies and eighties and beyond has been steadily growing. However, it does not follow ipso facto that they are in better health than their counterparts of a generation or two ago.

It could be argued that persons who survived to their seventies or eighties a generation or two ago without pacemakers, by-pass surgery, chemotherapy and a host of other life-extending mechanisms were, on average, in better health than persons of a comparable age who have had the advantage of such technology. Whether people in their 60's and 70's and older today are generally in better health than their counterparts a generation or two ago has not been verified. As yet, there are no concrete data that either confirm or refute the claim.

(2) There is no evidence to support the assertion that persons who work into their late sixties and early seventies and later are in better health—physically or psychologically—than they would be if they had retired. Work that is fulfilling and satisfying may well have a positive impact on the health—and perhaps even on the length of life—of an older person. But work that is enervating, tedious or physically onerous is more likely to be deleterious, rather than conducive, to health.

Not enough is yet known about the effect of retirement itself on health. Perhaps one could even speculate that, for most people, retirement, rather than being detrimental, has a salutary influence on health and length of life. The added years of life expectancy in the past four decades have been concomitant with the trend toward early retirement. Could early retirement have contributed to longer life expectation at age 65? Until there is more research on this subject there can be only speculation on the comparative effects of work and retirement on the physical and psychological well-being of older persons.

It does seem, however, that the relative benefits of work and retirement are a singularly individual matter. For some, it may be more satisfying to work until life's end; for others, it may be preferable to retire quite early, for example, at 55; and for still others, the optimal arrangement may lie somewhat between these two extremes. Among the many influences that impinge on the retirement decision are state of health, finances, number of dependents, degree of job satisfaction, breadth of interests that affect the number and kind of options available in retirement, and, of course, personality traits. Personality traits, or psychological factors, include the degree to which one's job or occupation is central to one's self-esteem or even to one's identity, the degree of optimism or pessimism with which one is imbued, attitude toward risk taking, and ability to cope with change.

(3) It would constitute a breach of faith with workers who are now contributing to the system and expect to be eligible for full retirement benefits at age 65.

(4) Ramifications of raising the retirement age need to be more carefully studied. If the consequences of such a legislative change are not fully identified and evaluated, there exists the danger of enacting legislation whose negative, unintended fallout would minimize, counteract or even outweigh the positive outcome that was intended. To avert such a development, answers to many questions are crucial. Some of these are:

How would raising the age of eligibility for full benefits affect the labor force participation rates of persons aged 55-59, 60-61, 62-64, 65-67, and 68 and over? What would be the magnitude of its impact on the finances of the social security system? Even if substantial savings in OASI are achieved, would they be counterbalanced by increased costs in other programs?

Since a substantial portion of persons who retire between the ages of 62 and 65 have health problems that preclude their working, the abrogation or sharp reduction of early retirement benefits could yield far smaller net savings in government outlays than had been forecast. To what extent would expenditures for disability benefits and other income maintenance programs, such as supplemental security income, unemployment benefits, and in-kind assistance (food stamps, medicaid and housing subsidies) wash out savings in OASI expenditures?

If labor-force participation rates of older persons rose considerably, how would it affect the career paths of younger workers? What would be industry's response to raising the age for full social security retired-worker benefits? Would it alter their pension plans—would benefits accrue between ages 65 and 68, or would they be frozen at age 65? What would be the effect on corporate payroll outlays for social security? Would corporate

pension plans contain attractive provisions for early retirement, as many have now, or would they tend to institute penalties for early retirement, or would they make available attractive incentives to remain on the job beyond age 65?

A former Commissioner of Social Security had this to say on the subject of raising the retirement age:

> "The unanswered questions are (1) whether the individual and institutional changes necessary to employ elderly persons would be made; (2) whether undue hardship for many people would be a consequence; and (3) whether it is proper for government to create conditions compelling people to continue working longer."[14]

Revising the Formula for Indexing Benefits

Beginning in 1975, social security benefits have been adjusted automatically each year to reflect increases in the cost of living as measured by the CPI (Consumer Price Index). Based on increases in the CPI from the first quarter of the preceding year to the first quarter of the current year, each June from 1975 through 1982 social security benefits rose at an average annual rate of 8.7 percent. (The average for that eight-year period embraces a broad range of yearly cost-of-living rises—from 5.9 percent in June, 1977, to 14.3 percent in June, 1980.) Since total OASDI benefits averaged some $109 billion annually over that eight-year period, the annual automatic indexing has increased expenditures by an average of $9.4 billion a year, or approximately a $1 billion increase in benefit outlays for each 1 percent rise in the CPI.[15]

Among the recommendations for reducing the annual automatic benefit increases are: (1) index the benefits to reflect rises in average annual earnings in those years when increases in prices outstrip increases in earnings. In most of the 20th century, annual gains in wages outpaced rises in prices. However, since 1974, that relationship has not obtained—annual increases in the CPI have exceeded average annual wage increases in five out of eight years; (2) develop a special index for the elderly, which would more accurately measure the changes in the prices of goods and services that they buy—use this index if it would yield significant savings;[16] (3) extend the date for automatic cost-of-living increase by three months—from June of each year (payable in July) to September (payable in October); (4) raise benefits by a rate 3 percentage points less than the increase in the CPI. For example, if the CPI rises by 9 percent, the benefits would be raised by 6 percent; or the annual adjustment could be limited to a specified proportion of the CPI rise—75 or 85 percent are figures that have been suggested; (5) place a cap on the CPI increase—instead of adjusting benefits annually to the full extent of the rise in the CPI, the annual adjustment would be capped at a specified percent. If, for example, there were a cap of 5 percent on the cost-of-living increase and the CPI rose by 6 percent or more, benefits would be raised only 5 percent.

Proponents of amending the current practice of indexing benefits to the full extent of the increases in the CPI focus on these arguments:

(1) Since sharp rises in cost of home purchases and in mortgage interest rates in the past several years have played a major role in pushing up the CPI, the latter has overstated the actual rise in prices paid by older persons.

(2) It is not equitable for the nonworking population to receive benefits that rise at a faster rate than the earnings of workers who are paying for those benefits. *As mentioned above, the CPI registered greater gains than did average wages in five out of the eight years from 1974 through 1981. In those five years, the excess of the annual increase in the CPI over the annual increase in average wages ranged from less than 2 percentage points to nearly 5 percentage points. The theoretical savings that would have been possible, had benefits been indexed to the increases in wages during those five years instead of the CPI, would have averaged close to $3 billion annually. (Congressional Budget Office estimates of savings in social security outlays that would be achieved in fiscal years 1983 through 1985 under several different types of cost-of-living adjustments appear in Table 5.)*

But others do not see that any change in the way benefits are indexed is necessary. They argue that:

(1) The CPI does not overstate the cost of living of the elderly—overstatement of housing costs are more than counterbalanced by the sharp rises in medical and fuel costs. These two items account for a larger share of the expenditures of the elderly than of the younger segment of the population.

(2) Any cutback in automatic increases in benefits linked to the CPI would result in hardship for a substantial number of people who rely entirely, or almost entirely, on social security benefits.

Mandating Universal Social Security Coverage

Several of the study groups have recommended mandatory social security coverage for those segments of

[14]Stanford G. Ross, *New Directions in Social Security: Considerations for the 1980's.* Washington, D.C.; U.S. Department of Health, Education, and Welfare, Social Security Administration, 1980, p. 40.

[15]Total benefits include amounts going to retired and disabled workers, their dependents, and survivors of disabled and deceased workers.

[16]A special consumer price index for the elderly is still relatively uncommon. Among the few countries that have such an index are the United Kingdom and the Federal Republic of Germany. For details, see J. Frank Gaston, *Adjusting Executive Pay for Inflation: A Technical Exploration.* The Conference Board, Report No. 819, pp. 23-27.

Table 5: Social Security Outlay Savings under Different Cost-of-Living Adjustments (COLA)
(by fiscal year, in billions of dollars)

	1983	1984	1985	Total 1983-1985
Eliminate 1983 COLA	2.2	9.2	9.5	20.9
Delay COLA's from July to October	2.2	2.1	2.8	7.1
Cap COLA's at 4 percent	0.6	2.7	4.4	7.7
Set COLA's at Growth in Wages Minus 1.5 Percentage Points[1]	0.2	0.9	0.9	2.0

[1]This option would result in small savings in outlays in the short run because of projected low productivity growth. Over the longer run, however, outlays could be either higher or lower than under current law, depending upon the relative behavior of wages and prices.

Source: Congressional Budget Office, cited by Alice M. Rivlin (Director, Congressional Budget Office) in her Statement before the National Commission on Social Security Reform, August 20, 1982.

workers that are not covered now, with the exception of certain groups that choose not to participate for religious reasons. The one-tenth of the work force that is not covered is largely made up of Federal Government employees, some state and local government employees, and employees of some nonprofit organizations.[17]

Many of its supporters have proposed, as an alternative, that current noncovered workers could be excluded from social security participation. Mandatory coverage would apply only to new employees—those hired after a specified date—of government and private organizations that had not been participating in the social security program. An additional recommendation is the repeal of the option permitting state and local government agencies and nonprofit organizations to withdraw from the program.

The principal points made by those in favor of universal social security coverage are:

(1) Universal social security coverage would be more equitable.

(a) It would eliminate windfall benefits which now accrue to federal workers who have spent a brief, but long enough, time in private employment to be eligible for social security benefits which are disproportionately large vis a vis their payments into the system. As noted earlier, the explanation for this phenomenon is that benefits are weighted in favor of workers with low lifetime earnings in order to provide them with a level of benefits that would be minimally adequate. If benefits were not skewed to their advantage, many more of them would require supplemental security income or other public assistance.

(b) Since it is mandatory for employees in private industry to participate in the social security program regardless of whether they have private plan coverage, it should be mandatory for government employees as well. In view of the income transfer concept implicit in the social security system, it is not defensible that a segment of the labor force be excluded from coverage.

(2) Workers in noncovered employment often suffer gaps in benefits protection. Noncovered workers may be without disability insurance during the first several years of their employment. The minimum length of service required by most pension plans is considerably longer than the 18 months of covered employment necessary for social security disability protection. Also, social security provides more generous benefits for dependents than most noncovered plans.

(3) People who have moved back and forth from covered to noncovered employment may receive combined retirement benefits from social security and pensions from noncovered employment which are less than if they had worked under one system only.

(4) Social security benefits are adjusted for price increases. While pension benefits of those retired from federal employment are also fully indexed to the CPI, benefits under most noncovered plans are not.

(5) Social security protection carries over from one employer to another. Portability of coverage is a singular advantage of social security; it does not exist outside the system. *While vesting increases the chances that a worker participating in a private pension plan will receive benefits during retirement, it certainly does not offer the degree of protection that exists in a fully portable system. Even among workers who are covered by a private plan, many lose their pension rights because they leave the job—and, therefore, the plan—before their benefits have become vested. Others may choose lump-sum benefits when leaving employment where they had vested pension rights.*

(6) More money would flow into the social security system. If all noncovered workers were brought into the system, receipts would substantially exceed outlays in the short run and more moderately in the longer run. If coverage were extended only to employees hired after a specified date, the net gains would be more modest.

Those who oppose universal social security coverage—mainly employees of the Federal Government—claim:

(1) Extending coverage to only new employees of noncovered segments would add relatively little additional income to the social security program in the short

[17]Noncovered employees: all in Federal Government; about one-fourth in state and local government; and about one-tenth in nonprofit institutions. Very low paid or intermittent workers, such as some domestics and farm workers, constitute a very small percentage of those who are not covered by social security because their wages are below the minimum levels required for participation in the system.

Table 6: Annual Maximum Taxable Earnings and OASDI Contribution Rates

Calendar years	Annual maximum taxable earnings	OASDI Contribution rates (percent of taxable earnings)	
		Employees and employers, each	Self-employed
1937-49	$3,000	1.000	—
1950	3,000	1.500	—
1951-53	3,600	1.500	2.250
1954	3,600	2.000	3.000
1955-56	4,200	2.000	3.000
1957-58	4,200	2.250	3.375
1959	4,800	2.500	3.750
1960-61	4,800	3.000	4.500
1962	4,800	3.125	4.700
1963-65	4,800	3.625	5.400
1966	6,600	3.850	5.800
1967	6,600	3.900	5.900
1968	7,800	3.800	5.800
1969	7,800	4.200	6.300
1970	7,800	4.200	6.300
1971	7,800	4.600	6.900
1972	9,000	4.600	6.900
1973	10,800	4.850	7.000
1974	13,200	4.950	7.000
1975	14,100	4.950	7.000
1976	15,300	4.950	7.000
1977	16,500	4.950	7.000
1978	17,700	5.050	7.100
1979	22,900	5.080	7.500
1980	25,900	5.080	7.500
1981	29,700	5.350	8.000
1982	32,400	5.400	8.500
Changes scheduled in present law:			
1983-84	(1)	5.400	8.050
1985-89	(1)	5.700	8.550
1990 and later	(1)	6.200	9.300

[1]Subject to automatic increase.

Source: *1982 Annual Report of Trustees of the OASDI Trust Funds*, Table 1, p. 11.

run. *Estimates of the Social Security Administration indicate that significant additional income would be generated after three or four years.*

(2) Noncovered public employees are strongly opposed to mandatory social security coverage. They point out that substantial numbers of them have earned eligibility for social security benefits through some covered employment in the past. They feel that payments into the social security system would not yield them proportionately greater benefits.

Using General Revenues to Finance Medicare

Several study groups have recommended that part or all of medicare benefits be paid from general revenues. The 1979 Advisory Council on Social Security recommended that all of medicare be financed through earmarked personal income taxes, while The National Commission on Social Security recommended that one half of medicare costs be derived from general revenues—through a 2.5 percent surcharge on federal personal income taxes. The Advisory Council further suggested that part of the medicare tax rate be shifted to the OASDI program and the remainder be repealed.

Those who favor using general revenues to finance medicare point out that:

(1) It would reduce the overall payroll tax rate.

(2) Since benefits received from medicare are not related to prior earnings, and all who are eligible receive

the same protection, there is no need to derive these funds from a payroll tax. (OASI and DI benefits are related to the level of past earnings.)

(3) If the payroll tax were lowered, labor costs would be reduced.

(4) Use of general revenues would tend to benefit low-income workers more than higher income workers.

The two chief arguments against the use of general revenues to pay for part of medicare are:

(1) Workers who are not covered by social security would be contributing to the program.

(2) If general revenues were used, there would be less concern about hospital cost containment.

As far back as 1935, the year that the social security system was established, the likelihood of having to resort to general revenues to help finance the program was pointed out by some students of the subject. In a report to the President in 1935, the Committee on Economic Security projected that benefits would exceed receipts from payroll taxes by 1965.[18]

Taxing Social Security Benefits

Social security benefits are currently tax-exempt. Recommendations for taxing benefits have generally specified that only half of the benefits be subject to income taxes. The rationale is that one-half of the contributions to the social security system (the employee's contribution) has been taxed already while the other half (the employer's) has not.

[18]Joseph A. Pechman, Henry J. Aaron, Michael K. Taussig, *Social Security: Perspectives for Reform.* Washington, D.C.: The Brookings Institution, 1968, p. 195.

The advantages of taxing social security benefits, according to its advocates, are:

(1) It would only affect persons with higher incomes, while those with low incomes would have to pay little or no tax.

(2) If the income taxes paid on social security benefits reverted to the OASDI trust funds, it would inject much needed additional revenue into the system.

The main point that is made by those who reject the idea of taxing benefits is that:

(1) Taxing benefits is equivalent to reducing benefits, and a substantial portion of persons affected will be those whose income is already somewhat marginal.

Raising the Payroll Tax

Another recommendation to restore the system's fiscal soundness is to increase receipts by raising the social security payroll tax. This can be accomplished by either increasing the payroll tax rate beyond scheduled levels or by taxing all earnings by eliminating the ceiling on earnings that are subject to the payroll tax. (Schedule of maximum taxable earnings and contribution rates appears in Table 6.)

Those in favor of this route as a means of bringing more money into the system claim that raising the OASDI tax rate by 1 percentage point, or thereabouts, is quite feasible. Surveys have shown that the majority of workers would prefer to pay higher payroll taxes rather than to have benefits reduced or have the age of eligibility for benefits raised.

The major argument against such an alternative is that social security taxes are already very high.

Attitudes of Workers and Retirees toward Social Security

SEVERAL SURVEYS have been conducted in recent years to determine the public's attitudes—especially workers' attitudes—toward retirement, pensions and social security. Below are some of the highlights of three such surveys, with the main emphasis on respondents' comments on social security.

A Nationwide Survey of Attitudes Toward Social Security was prepared by Peter D. Hart Research Associates for the National Commission on Social Security. This report presents the findings of a survey—conducted in November, 1979—of a randomly selected sample of 1,549 Americans aged 18 years and over. Of the total sample, 72 percent were nonretired persons and 28 percent were retirees.[19] Some of the findings are:

Slightly more than half of the respondents said that they found the idea of early retirement (before or around age 60) appealing—either "very appealing" (34 percent) or "quite appealing" (18 percent). A positive attitude toward early retirement was more common among nonretirees (58 percent of whom found it appealing) than among retirees (34 percent). Persons whose annual family income was above $17,500 (in 1978) and persons covered by pensions were also more likely to have favorable attitudes toward early retirement. While the proportion that views early retirement as appealing is greatest for blue-collar workers (62 percent), it is also high for professionals and executives (56 percent), as well as for other white-collar workers (51 percent).

Preference for early retirement, arrayed by age, reveals what some may regard as an unexpected finding: The 35 to 44 age group had the largest proportion of respondents who viewed early retirement as appealing (67 percent: 46 percent said "very appealing" and 21 percent said "quite appealing"). In contrast, the 65-and-over age group had the smallest proportion (29 percent: 18 percent regarded early retirement as "very appealing" and 11 percent regarded it as "quite appealing"). Since inadequate income is more common among those aged 65-plus, it can be assumed that they are more likely to be apprehensive about early retirement because of financial stress than the younger cohorts.[20]

In each of the other age groups, at least half of the respondents indicated that they found early retirement "very appealing" or "quite appealing" (Table 7). Moreover, for each of the four groups under 55, only about one out of seven respondents regarded early retirement as "very *un*appealing."

When respondents were asked at what age they would prefer to retire ("would have preferred," for those already retired), and at what age they expected to retire (or at what age they actually retired), the preferred age averaged 59 years and the expected or actual averaged 62 years. Moreover, the younger respondents (under 45 years of age) were more likely than the older ones to prefer to retire before age 60 (Table 8).

Assuming adequate retirement income, respondents were asked which of three given alternatives they would choose when they reached the "normal" retirement age of 65. Nearly half (48 percent) of the nonretired respondents replied that they would like to continue to work as long as they were able "at a less demanding or part-time job"; a substantial minority (31 percent) said that they would like to stop working entirely; and only 17 percent indicated that they would like to continue working full time as long as they were able to do so. (The remaining 4 percent were "not sure"). Hence, the great majority (79 percent) apparently wants a surcease from full-time employment when reaching 65. These findings suggest two policy implications: (1) the need for greater availability of part-time employment for older people, and (2) the need for providing options for older workers for making the transition to less stressful jobs. The latter may sometimes require retraining.

When respondents were asked which they would prefer if they had to choose between higher payroll taxes or lower social security retirement benefits, 63 percent said that they would choose higher taxes and only 15 percent said lower benefits. The remaining 22 percent said either a "combination of both" or "not sure."

Further, would they favor or oppose raising the eligibility age in 20 years—from 65 to 68 for full social security retired-worker benefits and from 62 and 65 for reduced benefits—if the alternative to raising the age were higher social security payroll taxes? While 36 percent favored raising the age, 51 percent opposed it, and 13 percent were not sure. Based on these responses, there appears to be stronger support for increasing taxes than for raising the age for eligibility for social security retired-worker benefits.

Another study, *Aging in the Eighties: America in Transition,* by Louis Harris and Associates, Inc., for The National Council on the Aging, is based on a survey, conducted in June and July of 1981, of a total sample of 3,452 persons aged 18 and over.[21] As in the Hart study,

[19]Nonretired persons (72 percent of total): 50 percent were employed, 19 percent were housewives, and 3 percent were students; retirees (28 percent of total): 23 percent were retired persons, and 5 percent were members of households whose heads were retired.

[20]The report does not present an income breakdown for the 65-and-over group.

[21]The sample of 3,452 adults included a national cross section of persons 18 years old and over, plus four separate oversamples of persons aged 65 and over, 55 to 64, blacks and Hispanics.

Table 7: Appeal of Early Retirement

Age	Very Appealing	Quite Appealing	Not Very Appealing	Very Unappealing	Not Sure
			Percent Distribution		
18-24	35	23	21	13	8
25-34	35	20	23	15	7
35-44	46	21	15	14	4
45-54	40	17	24	15	4
55-64	31	19	28	19	3
65 and over	18	11	32	34	5
All respondents[1]	34	18	24	19	6
Nonretired	38	20	22	15	5
Retired	21	13	30	30	6

[1]Details do not add to 100 percent due to rounding.
Source: Peter D. Hart Research Associates, 1980, Table T12.

Table 8: Average Preferred Age of Retirement and Average Expected or Actual Age of Retirement

Age of Respondents	Average Preferred Age	Average Expected or Actual Age
18-24	57	61
25-34	56	61
35-44	57	61
45-54	60	61
55-64	62	61
65 and over	64	64
All respondents	59	62

Source: Peter D. Hart Research Associates, 1980, Table T10.

this survey also indicates that—as a means of restoring a better balance between expenditures and receipts in the social security system—the majority of the American people would be in favor of raising social security payroll taxes but disapprove of raising the age of eligibility for full social security benefits (Table 9 and Table 10, Item C). The respondents of all ages overwhelmingly disapproved of reducing retirement benefits—either for those already retired or for those who will retire in the future (Table 10, Items A and B).

Reducing cost-of-living adjustments for retirement benefits is evidently another unpopular option for restraining social security costs—nearly three-fourths of the people surveyed disapproved of such a recommendation (Table 10, Item E). However, when asked whether they approved or disapproved of basing the cost-of-living adjustment on increases in *"either* wages or prices, whichever is lower," more than half approved such a change (Table 10, Item I).

While the responses to those two questions may appear contradictory, perhaps they are not. Respondents may be conveying a strong sense of uneasiness about sanctioning cuts in the annual cost-of-living adjustments when the nature and size of such cuts are not specified. However, when there is the proviso that cost-of-living increases would be at least as large as the increases in average wages, the proposal seems less threatening to at least some of the respondents who reject the idea of outright reductions in the cost-of-living adjustments.

There also seems to be a high degree of approval for extending social security coverage to Federal Government employees (Table 10, Item G). Further, a majority of respondents approved the use of general revenues to pay part of social security costs (Table 10, Item F). Elimination of benefits for minor children of retired workers and limiting social security benefits to elderly people who can prove need are two recommendations that were turned down by more than 60 percent of the respondents (Table 10, Items D and H).

An earlier Harris study, *1979 Study of American Attitudes toward Pensions and Retirement,* presents the findings of a survey conducted by Louis Harris and Associates, Inc. for Johnson & Higgins, employee-benefits consultants. The sample of 1,699 persons was designed to be a national cross section of the civilian population aged 21 and over who, at the time of the survey (August, 1978), were either full-time employees (1,330) or had retired from full-time jobs (369).

In addition, 212 business leaders were interviewed. The leadership sample represented a cross section of 212 companies from the *Fortune* 1250 listing and the *Dun and Bradstreet Million Dollar Directory.* About one out of seven of these 212 respondents was the company's Chief Executive Officer, and the rest were executives designated by the CEO to represent the firm's views on pensions and retirement.

The proportion of those surveyed who regard retirement as a welcome life stage has apparently been

Table 9: Support for Raising Social Security Taxes

Q: Social security taxes should be raised if necessary to provide adequate income for older people.

Age	Base	Agree (Percent)	Disagree (Percent)	Not Sure (Percent)
18-24	223	51	40	8
25-39	509	46	43	11
40-54	362	48	42	10
55-64	489	54	36	10
65 and over	1,832	58	28	14
Total	3,440a	51	39	11

[a]Total exceeds sum of components by 25 respondents—those for whom information on age was lacking.

Note: Details may not add to 100 percent due to rounding.

Source: Louis Harris and Associates, 1981, Table V-3.

growing. In both this survey and one conducted by Harris four years earlier, employed persons were asked: "Do you personally look forward to retiring, or not?" The proportion who said that they were looking forward to retiring rose from 43 percent in 1974 to 54 percent in 1978 (Table 11). Evidently, the 32 percent rise in the CPI—which translates into a 24 percent drop in the purchasing power of the dollar—during that four-year interval had not made workers more apprehensive about their financial well-being during retirement.

The 1978 survey, which broke out the responses by age groups, showed that the oldest cohort (50 to 64 years old) had the highest proportion (63 percent) who were looking forward to retiring. Within that age group, a favorable attitude toward retirement was more common among those who were covered by pension plans. However, even among workers who were not covered, more than half were looking forward to retiring.

Also, self-employed persons are less likely to look forward to retirement than those employed by others (Table 11). Other surveys, such as the Parnes' National Longitudinal Study and the Social Security Administration's Retirement History Study, show that the self-employed, on average, retire later than employees. Among the explanations of this difference is that the self-employed have greater flexibility than those working for an employer in setting their schedules and the number of hours that they work.

Among retired respondents, 21 percent had left the labor force before age 55; at least 50 percent before 61; and 86 percent before 66. The median age at retirement was 60.6 years.

Popularity of Early Retirement Persists

Not only is there a widespread preference for early retirement, as shown by the findings of the Hart and

Table 10: Recommendations to Help the Social Security System

Respondents were asked whether they approve or disapprove of each of the following recommendations:

	Recommendation	Percent of Total
A[1]	Reduce Benefits for People Already Retired:	
	Approve	6
	Disapprove	92
	Not sure	9
B	Reduce Benefits Only for People Who Retire in the Future:	
	Approve	11
	Disapprove	85
	Not sure	4
C	Gradually Raise the Retirement Age for Full Social Security Benefits from 65 to 68 Years of Age:	
	Approve	35
	Disapprove	59
	Not sure	6
D	Eliminate Benefits for Minor Children of Retired Workers:	
	Approve	29
	Disapprove	62
	Not sure	9
E	Reduce the Cost-of-Living Adjustments in Retirement Benefits:	
	Approve	21
	Disapprove	73
	Not sure	6
F[1]	Use Federal Monies such as Income Taxes to Pay for Part of Social Security:	
	Approve	62
	Disapprove	30
	Not sure	9
G	Require Workers Who *Do Not Pay* Social Security Taxes Now—For Example, Employees of the Federal Government—To Pay These Taxes:	
	Approve	76
	Disapprove	18
	Not sure	6
H	Give Social Security Benefits Only to Elderly People Who Can Prove They Have Little or No Other Income:	
	Approve	32
	Disapprove	64
	Not sure	4
I	Base Cost-of-Living Adjustments on Increases in *Either* Wages or Prices, Whichever Is Lower:	
	Approve	56
	Disapprove	26
	Not sure	18

[1]Details do not add to 100 percent due to rounding.

Source: Louis Harris and Associates, 1981, Table V-4.

Table 11: Attitudes Toward Retiring

Q.: Do you personally look forward to retiring, or not?

(Number of respondents)	1978 Total (1309)a	Employment: Hourly Wage Worker (534)	Employment: Salaried (584)b	Employment: Self-Employed (159)	Age: 18-24 (148)	Age: 25-34 (372)	Age: 35-49 (426)	Age: 50-64 (336)	1974 Total Employees (1332)
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Look forward to retiring	54	55	57	44	42	56	51	63	43
Don't look forward to it	40	38	38	52	47	40	42	33	51
Not sure	6	7	6	4	11	4	7	4	6

[a]The numbers in the three employment groups, as well as in the four age groups, total less than 1,309 because some respondents did not give complete information.

[b]Details do not add to 100 percent due to rounding.

Source: Louis Harris and Associates, 1979, Table II-3a.

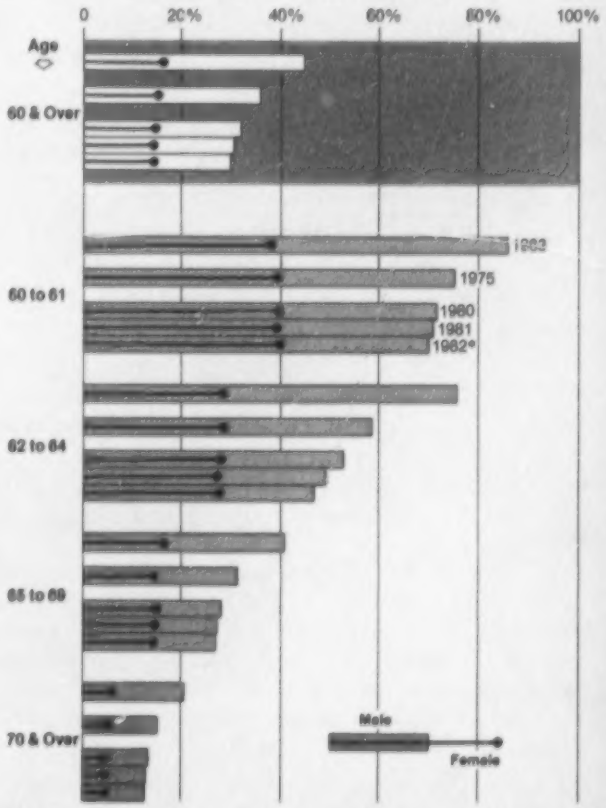
Harris surveys, but increasingly workers are acting on this preference. A virtually steady decline in labor-force participation rates for persons 60 and over has been in evidence for at least two decades (Chart 2). This suggests that large numbers of people are eager to retire as soon as they are financially able to do so. As shown in at least one longitudinal survey, a substantial proportion of persons retire *voluntarily*, whether before 65, at 65, or later—without serious health problems and without being forced out through mandatory retirement plans.[22] Moreover, two-thirds of the voluntary retirements were early—occurring before age 65. Is the attractiveness of early withdrawal from the labor force an indication that large segments of the working population have unsatisfying jobs?

The early retirement trend has so far shown no marked inclination to weaken.[23] This may appear to many as somewhat anomalous considering the high levels of inflation that have prevailed for nearly a decade. While the rate of inflation has moderated in 1982, the Consumer Price Index had climbed steeply during the preceding eight years—between 1974 and 1981 it rose from the preceding year at an average rate exceeding 9 percent. And the rise in the CPI was especially sharp during 1979, 1980, and 1981. In each of those three years, the CPI rose at a double-digit annual rate. Since rising prices shrink the purchasing power of most forms of retirement income—an exception is indexed social

[22]Herbert S. Parnes and others, *Work and Retirement: A Longitudinal Study of Men.* Cambridge, Mass.: MIT Press, 1981, p. 190.

[23]For more detail on the factors that are apparently largely responsible for the phenomenon of early retirement, see Shirley H. Rhine, *Older Workers and Retirement.* The Conference Board, Report No. 738, 1978, pp. 28-33.

Chart 2: Labor Force Participation Rates of Men and Women Age 60 and over



Note: The labor force participation rate is the proportion of the population outside of institutions (prisons, mental institutions, sanitariums, or homes for the aged or infirm) that is in the labor force. For example, in 1981 the participation rate for men aged 70 and over was 12.5 percent which means that 12.5 percent of the men in that age group were either employed or looking for work.

* January to June average.

Source: Bureau of Labor Statistics, unpublished data.

security benefits—the inflation rate certainly must be one of the considerations affecting the timing of the retirement decision. Evidently, for many people, inflation's contribution to the decision is overridden by a host of other considerations—attitude toward one's job, expected postretirement income and health are only a few of such considerations.[14] For a significant portion of persons about to retire, attractive early retirement benefits provided by many pension plans probably figure importantly in an assessment of income after retirement.

While a reversal in the trend toward early retirement may not be imminent, it could occur later in this decade when the absorption of the baby-boom generation into the labor market has been completed. The subsequent slowing in the growth of the work force may well retard—or even reverse—the trend toward early retirement.

When demand for labor is strong it is reasonable to expect that the practices of business, labor unions, and government may cease to encourage early retirement as a way of making more jobs and opportunities for advancement available to younger workers. Further, if the labor requirements of the economy expand faster than the labor supply, employers should become increasingly interested in providing older workers with incentives to remain at work, such as part-time work arrangements, flexible hours, and retraining when necessary.

[14]For a brief discussion of the retirement decision, see Shirley H. Rhine, *America's Aging Population: Issues Facing Business and Society*. The Conference Board Report No. 785, 1980, pp. 30-34.

In addition to restructuring jobs to make them more interesting and gratifying, perhaps there could be greater emphasis on better matching of people and jobs. How prevalent is the square-peg-in-the-round-hole syndrome? Are there substantial numbers of people who are unhappy with their occupations (and consequently underachieving) but who could be quite satisfied and more productive in another type of work? What kind of motivation would be required on the part of the employer and employee to extricate the latter from work that is uncongenial by seeking work—which may or may not require further formal education or training—that yields greater gratification?

Clearly, considerably more study of the workplace would be required to learn more about: (1) how jobs can be revitalized and made more satisfying; and (2) how young people preparing for the world of work and persons already in the labor force, but unhappy with their career choices, can be guided to choose occupations that are compatible with their skills, talents and temperaments. While such a service could benefit older workers, it could also have a salutary impact on many people at any point in the worklife continuum, or even before. Better direction in choosing an occupation should perhaps begin during the high school years when career choices usually, or at least frequently, are made. Doubtless, an environment where labor requirements are outstripping supply—a likely development by the late 1980's or early 1990's—could spark the implementation of imaginative management policies that encourage older workers to remain in the labor force longer.

The European Experience

CONCERN ABOUT mounting social security costs is not confined to the United States. It is also evident in the industralized countries of western Europe. Their social security systems also began to experience deficits in the mid-1970's, and for reasons similar to those of the United States.

High levels of inflation and rising unemployment served as the immediate catalyst. As in the United States, underlying these cyclical developments are more fundamental, secular influences—namely, aging populations, increased longevity, and a marked trend toward retirement at or before age 65, with declining proportions of people working beyond that age.[15] For example, from 1955 to 1980, the labor-force participation rate for the 65-plus population in Europe dropped from 16 percent to 8.5 percent.[16] These combined influences are mainly responsible for the rapidly growing costs of social security abroad as well as in the United States.

[15]A population is said to be aging when the number of persons in the older age groups, for example, 65 and over, is expanding at a faster rate than the rest of the population. The main contributors to such a trend are low birth rates since the mid-1960's, relatively high birth rates in the late 19th century and early 20th century (when persons aged 65-plus today were born), and increased longevity.

Higher Outlays for Social Security in Europe

Actually, the relative magnitude of social security costs is substantially greater in most of the industrialized western European nations than in the United States, as manifested by their considerably higher payroll tax rates for OASDI (based on U.S. definition). In 1981, for example, the OASDI tax rate for employers and employees combined was 10.7 percent in the United States.

[16]Max Horlick, *Social Security in Europe: The Impact of an Aging Population*, An Information Paper prepared for use by the Special Committee on Aging, United States Senate. Washington, D.C.: Government Printing Office, 1981, p. 17.

It ranges upward of 13 percent for all the other countries, with the exception of Switzerland (Table 12).

The Netherlands has the highest payroll tax--34.9 percent in 1981. A major reason for this inordinately high rate compared with other European countries, as well as with the United States, may be their exceptionally generous disability program. Also, workers' compensation insurance is included in the Netherlands disability insurance. The general revenue contribution to OASDI, in addition, is relatively much smaller in the Netherlands than in other European countries.

Since most of the industrialized countries of western Europe rely on significant amounts of general revenues, their OASDI is even costlier than indicated by their payroll tax rates. In some countries, payroll taxes supply less than 80 percent of the outlays for OASDI benefits, with the remainder coming from general revenues (Table 13). In Austria, for example, some 35 percent of the expenditures for benefits are derived from general revenues. And general revenues account for close to a fourth of the outlays for OASDI benefits in Belgium and the Federal Republic of Germany.

In the United States, the OASDI program is financed

Table 12: Payroll Tax Rates for Social Security (OASDI) in 1981, Selected Countries

Country	*Employers*	*Employees*	*Total*
	(as percent of payroll)		
Austria	11.35	9.75	21.10
Belgium	8.86	6.25	15.11a
France	8.20	4.80	13.00b
Germany, Federal Republic of	9.25	9.25	18.50
Italy	17.31	7.15	24.46
Netherlands	12.90	22.00	34.90c
Sweden	21.15	—	21.15
Switzerland	4.70	4.70	9.40
United States	5.35	5.35	10.70

[a]Disability benefits financed through sickness insurance.
[b]Disability and survivors' benefits financed through sickness insurance.
[c]Disability insurance also includes workers' compensation.
Note: Data not available for the United Kingdom.

Source: Comparative studies staff, Office of International Policy, Office of Policy, Social Security Administration. Cited in *Social Security in Europe: The Impact of An Aging Population,* an information paper prepared by Max Horlick for use by the Special Committee on Aging, United States Senate, December, 1981, p. 13.

Table 13: General Revenue Contributions to OASDI as a Percentage of Expenditures on OASDI Benefits, Selected Countries, 1957-1977

Country	*1957*	*1960*	*1963*	*1966*	*1971*	*1974*	*1977b*
Austria	15.9	20.3	28.3	32.0	29.4	30.0	34.8
Belgium	34.0	33.1	30.4	27.3	19.7	21.5	23.4
France	n.a.	8.4	7.6	6.0	n.a.	14.1	9.7
Germany, Federal Republic of	37.8	33.8	32.8	32.0	25.3	25.1	24.2
Netherlands	10.4	8.3	5.4	8.5	4.9	3.9	7.8
Sweden	62.3	43.9	53.1	61.1	50.6	49.4	18.82
Switzerland	17.3	14.0	14.7	19.4	20.2	18.8	14.76
United States	a	a	a	a	a	a	.8

[a]Negligible.
[b]Latest available data.
n.a. Not available
Note: Data not available for the United Kingdom.

Source: International Labour Office, *Cost of Social Security,* cited in *Social Security in Europe: The Impact of an Aging Population,* 1981, p. 13.

virtually entirely from payroll taxes paid by employers and employees and taxes on earnings from self-employment up to a specified ceiling. Only a nominal proportion is supplied from general revenues.[27] However, as mentioned earlier, the use of general revenues to pay part or all of the hospital insurance (medicare) portion of social security has been recommended by several groups.

Another set of data that demonstrates the relative magnitude of OASDI benefit payments in the economies of industrial countries of western Europe compared with the United States is the proportion of GNP (gross national product) accounted for by such payments. In 1977, expenditures on OASDI benefits was 4.3 percent of GNP in the United States, as against a range of 6.0 percent to 10.2 percent in the European nations (Table 14 on page 22).

[27]General revenues are used to pay for monthly benefits for persons with less than three-quarters of coverage. (They are also used to cover the cost of hospital benefits for individuals not entitled to social security benefits and the cost of supplementary medical insurance not covered by the premiums of those enrolled in the Supplementary Medical Insurance program.)

Table 14: Expenditures on OASDI Benefits (U.S. Definition) as a Percentage of Gross National Product, Selected Countries, 1957-1977[1]

Country	*1957*	*1960*	*1963*	*1966*	*1971*	*1974*	*1977a*
Austria	4.0	5.0	5.3	6.0	7.0	7.0	8.0
Belgium[2]	3.0	3.1	4.0	4.0	4.2	5.1	6.0
France[2]	3.0	2.2	3.0	3.2	n.a.	5.1	6.2
Germany, Federal Republic of	6.0	6.0	6.0	6.2	6.4	7.4	9.0
Netherlands	3.0	4.0	5.0	6.3	7.4	8.3	10.2
Sweden	3.4	3.3	4.0	5.0	6.0	7.1	9.2
Switzerland	2.0	2.2	2.3	3.0	4.0	5.3	7.1
United Kingdom[3]	4.0	3.2	4.0	4.0	4.0	5.0	6.0
United States[3]	1.5	2.2	2.6	3.4	3.4	4.0	4.3

[1]These statistics are based on data provided by the International Labor Office, adjusted to include cash OASDI benefits. Gross national product figures of the International Monetary Fund were used.
[2]Disability insurance is administered together with sickness insurance and is not included.
[3]Adjusted to fiscal year.
n.a.—Not available.
[a]Latest available data.

Source: International Labour Office, *Cost of Social Security*, cited in *Social Security in Europe: The Impact of an Aging Population*, 1981, p. 7.

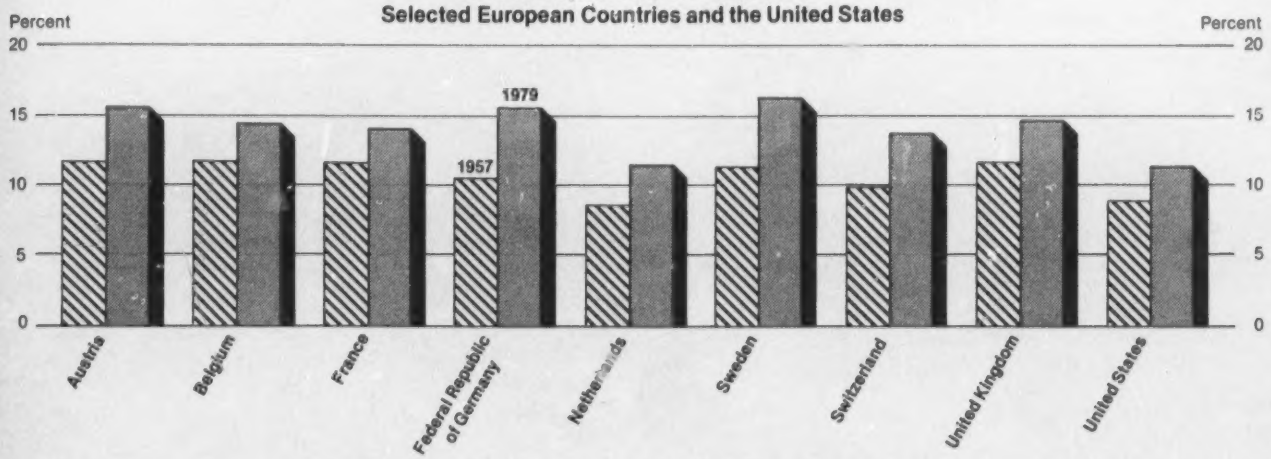
Higher Proportion of Elderly in Europe

The primary reason for higher costs for OASDI among the European countries is that their populations have been aging more rapidly, reflecting mainly lower birth rates, than in the United States during the past three decades. By 1979, a little over 11 percent of the U.S. population was at least 65 years old, considerably below the ratios in the major countries of western Europe (Chart 3). Japan and Canada are the only industrially advanced countries in the world where the number of persons 65-plus represents a smaller proportion of the population than in the United States.

In many of the industrial countries of Europe, OASDI benefits are subject to income taxation when the recipient's total income is greater than a specified amount. Social security benefits in the United States are not taxable. However, one of the recommendations for bringing more money into the U.S. system, as mentioned above, is to treat half of social security benefits as taxable income and channel the resultant revenues into the OASDI trust funds.

The relatively higher payroll taxes paid by workers in most of the more advanced western European countries is explained mainly by two phenomena: (1) A larger proportion of their populations is receiving retired-

Chart 3: Population 65 Years Old and Over as a Percentage of Total Population, 1957 and 1979— Selected European Countries and the United States



Source: Organization for Economic Co-operation and Development, *Labor Force Statistics*. 1957 data cited in *Social Security in Europe: The Impact of an Aging Population*, 1981, p. 16; 1979 data OECD, *Labor Force Statistics*, 1968-79 edition (Paris 1981).

worker benefits and; (2) Disability benefits tend to be more generous in Europe than in the United States. Not nearly as important as the other two, but nevertheless a contributing factor, is that income replacement rates are somewhat higher in many of those countries compared to the United States. It is clear that financing the OASDI programs of other advanced economies places a considerably greater burden on their working populations than in the United States.

In their Preface to the Horlick study, *Social Security in Europe: The Impact of an Aging Population,* Senators John Heinz (Chairman of the Special Committee on Aging) and Lawton Chiles (Ranking Minority Member), say about the European programs: ". . .We are struck. . .with the durability of these social insurance programs. They have survived two world wars, ravaging inflation, and political and economic collapse. There is every reason to expect that the American social security system will display the same resilience, the same ability to guarantee economic security to all those who depend on it, in both good times and bad times, if we commit ourselves to the goals it deserves."

Conclusion

THE CONCLUSION of virtually all of the groups that have studied the social security system is that it is distinctly viable. (See box for two sample comments.) Despite serious financial problems—both for the short term and the long term—workable remedies are clearly available.

The task before Congress is to act on reforms only after all of their ramifications have been thoroughly explored—at least all the foreseeable ones. Legislation that comes into being without rigorous analysis may bring forth unintended consequences that sabotage its basic aim or aims.

". . .the question for the system *is not one* of whether the system can be restored to sound financial condition, but how it will be done. The policy options are abundant—but those around which a political consensus can be reached are more limited. The urgency of the situation, however, may diminish ideological differences."[28]

It is axiomatic that restoring and maintaining the fiscal health of the social security system are more easily accomplished when the economy is robust than when it is sluggish. Continued moderation in inflation, a significant reduction in unemployment rates, and more vigorous growth in productivity would constitute important contributions toward the elimination of social security deficits.

[28]David Koitz, *Social Security Financing and Taxation,* Issue Brief Number IB80007, The Library of Congress, Congressional Research Service, Washington, D.C., September 11, 1981, p. 24.

Summary Comments of Two Study Groups

After studying a variety of alternatives, the National Commission on Social Security concluded that the social security system is the best method for providing income support in the United States. "Of all sources of retirement, disability, or survivorship income, Social Security has the best potential for stable real income, especially in times of economic adversity. Social Security provides a combination of features that, as a package, are not matched by private pensions or annuity plans: early vesting, automatic indexing to inflation, portability of earnings credits from job to job, benefits to family members, and exemption from taxes."[1]

All of the major alternatives to social security that were scrutinized by the Commission were found to be "either too costly or offer insufficient assurance that income will be there when workers need it." Other alternatives were regarded as too limited in either coverage or benefits. Moreover, it was deemed that, for all the alternatives, there would be great difficulty in devising a workable transition from the current system. "The Commission believes that the transition financing problem is a significant barrier to the success of any substitute program."

* * * * *

From the 1979 Advisory Council on Social Security:

"The council is unanimous in finding the social security system is the government's most successful social program. It provides basic retirement, disability, and survivorship protection which American workers can supplement with their own savings and private pensions, and it will continue to provide this protection for as far ahead as anyone can see.

"After reviewing the evidence, the council is unanimously convinced that all current and future social security beneficiaries can count on receiving all the benefits to which they are entitled."[2]

[1]National Commission on Social Security, *Social Security in America's Future.* Washington, D.C., March, 1981, p. 4.

[2]*Social Security Financing and Benefits,* Report of the 1979 Advisory Council on Social Security, p. 1.

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Urban Plant Siting

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Introduction

For nearly three decades U.S. cities have been undergoing profound changes that have altered both the social and economic landscape of urban centers. Unfortunately, many of the changes have not been improvements. While some cities were growing in population, others were shrinking (Table 1). In some cities, a migration by the middle class from urban jobs and residences to suburban—and even exurban—housing and employment opportunities has left a population that is poorer, less skilled, and more in need of municipal services. At the same time, the tax base that would support such services has continually eroded.

The Effect of Job Loss

Earlier in the century, central-city locations had been ideal sites for new businesses. Many of these locations, however, are no longer as competitive and attractive as they were prior to World War II. Urban disadvantages, such as congestion and the obsolescence of some multistory buildings, now often outweigh the advantages. Also, changes in transportation and communication have increased the choices available in location decisions.

There seems little doubt that the transfer of jobs, particularly in manufacturing, from urban to suburban or rural locations has been a major contributor to the plethora of problems faced by urban centers. The job loss has been most evident and dramatic in many of the older industrial cities of the Northeast and North Central regions of the country, with a variety of factors cited as being responsible.

In some instances, the jobs simply "commuted" to areas adjacent to, but outside of, the cities' political boundries. Companies headquartered in New York City, for example, moved to nearby Connecticut, Westchester County, or suburban New Jersey. The same phenomenon occurred in the Chicago metropolitan area and, to a lesser extent, in some smaller cities.

In other instances, the jobs "went South." Many companies establishing new or expanded manufacturing or service facilities chose Sun Belt locations for these new facilities, and many cities in the South and Southwest experienced a rapid growth. Both companies and individuals voted with their money and their feet and moved to the Sun Belt.

And, many firms have chosen to disinvest in urban-based manufacturing and service facilities in favor of suburban or rural locations. Companies can accomplish this in many ways that are difficult for economists and regional planners to evaluate empirically—shifting personnel and production resources from one plant to another, for example.

Meanwhile, those companies that were located in many of the older cities of the North and Midwest were disproportionately made up of firms in slow-growth industries—for example, machinery, leather goods, garment production. By contrast, many of the more rapidly growing cities in the South and West had more firms in such rapid-growth industries as electronics and computer components.

On a regional basis, the data look somewhat different,

Table 1: Population Changes in Selected Cities

Growing Cities	*Percent change 1970-1980*	*Declining Cities*	*Percent change 1970-1980*
San Jose, Cal.	+38%	St. Louis, Mo.	—27%
Phoenix, Ariz.	+35	Cleveland, Ohio	—24
Charlotte, N.C.	+30	Buffalo, N.Y.	—23
Orlando, Fla.	+30	Detroit, Mich.	—21
Houston, Texas	+29	Newark, N.J.	—14

Sources: U.S. Bureau of the Census, *1980 Census of Population*, Advance Reports by State, Series PHC80-V.

SURVEY TECHNIQUE

Approximately two years ago, The Conference Board developed a computerized data base that records the construction of any new manufacturing facility within the continental United States with aggregate construction costs in excess of $250,000. This data base also lists major expansions or remodelings of a similar cost.

The data base permits Conference Board researchers to identify where new plants have located by zip code, SIC code, and number of employees, among other factors. This data base was used to select all of those new manufacturing plants that had been constructed in zip codes assigned to major urban centers throughout the United States. Several hundred such plant locations were identified in 24 states.

A questionnaire was mailed to the headquarters location of each new manufacturing facility, in order to develop data on the location and construction of the new plant facilities. Sixty-eight companies responded. These primary research data were reenforced by a review of the literature on the topic.

Characteristics of the Firms Studied

The respondents include 16 manufacturers of nondurable goods and 52 manufacturers of durable goods. The major product categories represented are: electrical and nonelectrical machinery (including computers and electronics), primary and fabricated metal, and transportation equipment.

A wide range of companies, as measured by sales, assets and number of employees in the United States, is represented (see Tables 2, 3, and 4). They are geographically dispersed by region. As another measure of size, more than three-fifths of the companies have three or more manufacturing facilities and about one-fifth have twenty-five or more.

To be included in this survey, each company had to have at least *one* urban manufacturing facility. One-third of the respondents indicate that they have only one plant in a city, almost one-third indicate that they have four or more plants in cities; and the rest have two or three.

as discussed in a recent Conference Board publication.[1] New England, for instance, has a diverse economy, and there, "the aging and decline of long-standing industries is balanced by the emergence and growth of new ones. It is the process of regeneration which makes the New England economy viable." Although the region has been hurt by the current recession, "the outlook for New England is more bright than bleak." However, as this analysis points out, "shoe and textile companies still close in New England, and when they do, they leave an older and largely immobile work force with few immediate opportunities."

[1]Lora Collins, *U.S. Regional Outlook 1982-1983*. The Conference Board, Research Bulletin No. 118, 1982, pp. 7-8.

Table 2: Responding Companies, by Sales

Total Sales, 1980 (millions of dollars)	*Percent of 68 Companies*
Up to $10	26%
$11-$50	22
$51-$1,000	18
$1,001 and over	21
No answer[1]	13
	100%

[1]Includes privately held companies and new companies with no sales records as yet.

Although manufacturing employment is still declining in most central cities, in some it is being replaced with service jobs, and the cities are remaining vital and dynamic. In these cities, the physical structure is also changing as office buildings replace factories and old industrial buildings are converted into downtown housing.

The Problem of Small-Business Job Losses

Small-business formations and the operation of small business have a dramatic impact on employment, particularly in urban centers. An MIT study by David Birch found that small companies (with 20 or fewer employees) generated two-thirds of all new jobs in the United States between 1969 and 1976. And four-fifths of all new net gains in employment are due to the hiring practices of firms with 100 or fewer employees.[2]

On the other hand, a recent study by The Brookings Institution found that small independent businesses with 100 or fewer employees accounted for only 37 percent of employment growth between 1978 and 1980. The difference between the two studies is accounted for, in part, by the fact that branches or subsidiaries in the Brookings data are not counted separately from enterprises (firms). The policy conclusions are very similar to those of the MIT study: Large new branches of major firms are not likely to be the significant source of new jobs in a particular community. Small businesses, however, are usually tied to a local community—both economically and socially. They are more responsive to local conditions and are less likely to relocate to other communities.

[2]David L. Birch, *The Job Generation Process* (summary). Cambridge, Mass.: M.I.T. Program on Neighborhood and Regional Change, 1979, p. 8.

Table 3: Responding Companies, by Asset Size

Assets, 1980 (millions of dollars)	*Percent of 50 Companies*
Up to $3,999	24%
$4,000-$34,999	26
$35,000-649,000	24
$650,000 and over	26

Median: $26,050,000
Range: $500,000 to $20,000,000,000

And, because small businesses tend to start up or expand when there is less competition, they are often a stabilizing influence in a weakening local economy or industry.[3]

The formation of new, small businesses—with the new jobs they create—is one of the most important stimuli to employment gains. In terms of net new jobs, their high failure rate is more than compensated for by their high start-up rate. Indeed, some of the healthiest local economies have a very high small-business failure rate. According to Birch, part of what makes these economies dynamic and healthy is that the *new* business-formation rate is so high.[4] Moreover, these small businesses are major employers of younger, unskilled workers, and their absence in some cities in recent years has contributed to skyrocketing unemployment rates among the young and the unskilled.

Breaking a Vicious Cycle

City administrators, faced with a declining tax base because of the middle-class exodus, building abandonment, out-migration of businesses, and so on, have typically responded to fiscal strain by trimming capital budgets and/or deferring needed maintenance programs. Too often, these cutbacks have seriously eroded the very infrastructures that helped make cities attractive as sites for business operations.

A growing realization of the inexorable linkage among jobs, new-business formations, and conditions conducive to maintaining employment in urban centers has focused the attention of both private- and public-sector policymakers on the factors influencing business to choose urban-center locations, as well as on the experience of companies that have located facilities at such sites. During the Winter of 1981-1982, The Conference Board sought to identify firms that had recently chosen to locate manufacturing facilities in urban centers. The purpose of this research was to pinpoint the primary factors in these firms' location decisions and to analyze the experience of companies that are operating new production facilities in urban centers.

[3]Catherine Armington and Marjorie Odle, *Sources of Recent Employment Growth 1978-1980.* Working Paper No. 5, Business Microdata Project, Economic Studies Program, Washington, D.C.: The Brookings Institution, 1982.

[4]David L. Birch, "Who Creates Jobs?" *The Public Interest,* Fall, 1981.

Table 4: Number of Company Employees in the United States

Number of Employees	*Percent of Companies*
Up to 49	19%
50-249	21
250-1,149	19
1,150-14,999	19
15,000 and over	21
	100%[a]

Median: 415
Range: 14 - 129,764

[a]Details do not add to 100 percent because of rounding.

National Urban Policy

While the United States may not have had a consistent national urban policy over the past decades, the actions of the Federal Government have had, and continue to have, a significant impact on the growth and decline of American cities. Several policies have had a negative impact on central cities, particularly the older industrial cities. Since the New Deal, for instance, the Federal Government has indirectly assisted the out-migration of population and jobs from central cities by encouraging the growth of suburbia and exurbia. Programs that led to the construction and improvement of the federal highway system, as well as mortgage policies that encouraged the construction of new suburban housing, were among the federal actions and policies contributing to the movement out of the cities.

The Federal Government has also, since World War II, sponsored several programs designed to deal specifically with urban decay. Each was predicated on a different concept of what causes urban decline. For example, the urban renewal policy of the 1950's and early 1960's was aimed at the physical symptoms—such as spreading slums and the difficulty of assembling large tracts of land.

The 1960's, with the war on poverty and the drive for civil rights, focused on relieving unemployment among inner-city, minority residents, particularly youth. The result was a wide variety of new programs including Manpower Development and Training and Model Cities.

The programs of the 1970's, particularly in the latter part of the decade, concentrated heavily on private-industry job creation. An early example was the 1974 Comprehensive Employment and Training Act (CETA),

which included community-development block grants.

In a March, 1978, message to Congress, President Carter introduced his proposals for what he termed a "comprehensive national urban policy" representing a "long-term commitment to the nation's urban areas." This policy was based on a "New Partnership involving all levels of government, the private sector, and neighborhood and voluntary organizations in a major effort to make America's cities better places in which to live and work." It was evident that the limits of federal largesse were beginning to be understood. President Carter stated that the need for a partnership was based on the recognition that the "federal government alone has neither the resources nor the knowledge to solve all urban problems."[1]

The centerpiece of President Carter's urban policy was the Urban Development Action Grant (UDAG) program. This program, altered only slightly under the Reagan Administration, is designed to stimulate economic recovery in distressed urban communities by using public funds to encourage private-sector investment. What distinguishes this program from previous urban revitalization programs is that, for the first time, government funding for a project is dependent upon private-sector financial commitments. This requirement is designed to ensure active involvement of the business community. Government officials say that approximately $6 of private investments have been stimulated for every $1 of UDAG funds, and that several hundred thousand new jobs in the private sector have been created or retained by this program. The program is designed to be flexible, and the grants have been used for downtown commercial redevelopment projects, housing development, and industrial expansion. (The current administration has tried to emphasize the use of UDAG's for industrial facilities.)

Enterprise Zones

The centerpiece of President Reagan's urban program is the experimental concept of enterprise zones as a means of revitalizing economically depressed inner cities and rural areas. The Administration's bill, "The Enterprise Zone Tax Act of 1982," was introduced in the Senate on March 30, 1982, and in the House on March 31, 1982.

[1]President J.E. Carter, "National Urban Policy, Message to the Congress, March 27, 1978," *Weekly Compilation of Presidential Documents*, April 3, 1978, pp. 581-582.

Although the concept has not generated widespread enthusiasm, neither has it generated tremendous opposition. Several mayors and governors are interested in the program as one more possible way to stimulate economic activity in depressed areas. Some of the criticisms and concerns that have been expressed include reservations about the effectiveness of the proposed tax incentives to attract new small businesses; objections that tax revenues would be lost to government; and fear that other urban programs will be discontinued (in addition to those that have already been dropped).

Enterprise zones are designed to stimulate private- sector job creation by providing a climate conducive to new business growth and formation. The enterprise zones program is unlike the federal urban revitalization programs of the 1950's and 1960's, which required centralized planning and heavy government subsidies. This new approach reflects the Federal Government's growing recognition that job creation is most successful when handled by the private sector. Indeed, a basic tenet of this approach is that government regulations and intervention often hinder job creation in central cities, and act as a barrier to entrepreneurial activity.

Basically, enterprise zones are intended to revitalize designated declining areas by attracting new—particularly small—businesses. Twenty-five zones a year would be established over three years. The zones would reduce the regulations and taxes that inhibit new business creation. The legislation also encourages state and local governments to provide improved local services and tax incentives.

Enterprise zones were first proposed in the late 1970's in Great Britain and were made part of that nation's economic plan in late 1980. The concept was introduced in the United States in 1979 by Stuart Butler of the Heritage Foundation, who suggested an adaptation of the British system. Congressmen Jack Kemp (R-N.Y.) and Robert Garcia (D-N.Y.) have been most closely identified with the legislation proposed in Congress over the last two years.

Several states are considering their own enterprise zones. Connecticut became the first to enact such legislation in July, 1981. Several other states (Florida, Indiana, Maryland, Louisiana, Ohio, Kentucky, Minnesota, Kansas, Missouri, Virginia and Arizona) are also implementing similar programs, and many more have enterprise-zone legislation awaiting final action.

The Decision to Establish or Relocate a Manufacturing Plant in a New Location

Site-location decisions are one of the most critical steps in a firm's capacity-planning process. A major analysis by Roger W. Schmenner, an authority on business- location decisions, points out that the broad elements comprising this process include: (1) the recognition of future capacity needs; (2) the creation of both short-term and long-term options for dealing with any recognized capacity needs; (3) the decision on whether a new site is needed and where, in general, it should be; and (4) the actual site selection.[6] This study focuses primarily on the latter two elements.

The Initial Decision

The decision about *whether* to establish a new facility is so important to a company's fortunes that almost two-thirds of the respondents indicate that it is initiated "mostly" by corporate-level executives rather than by group-, or division-level, executives. In almost all cases reported for this study, the decision is arrived at by several executives actively participating in the process. In nearly nine out of ten cases, three or more executives are involved in the initial decision.

Number of Executives	*Percent of 62 Respondents*
One	3%
Two	10
Three	24
Four	19
Five	13
Six	13
Seven to twenty	18
	100%

[6]Roger W. Schmenner, *Location Decisions of Large, Multiplant Companies*. Cambridge, Mass.: Harvard-MIT Joint Center for Urban Studies, 1980, pp. 2-5.

Site-Selection Decision Making

Over one-half of the companies report that site-selection decisions are usually the primary responsibility of one or more key executives; nearly a fifth report that this responsibility is shared by a key executive and a company unit or outside organization. In these cases, the firm's president is cited most frequently as the key decision maker.

Although about one out of four respondents report that an existing department within the company shares responsibility for site-selection decisions, only about one in ten says that such a department has the primary responsibility. The responsible departments mentioned most frequently by the respondents are real estate, facilities planning or development, and engineering.

Almost one-third of the companies say that a special task force or committee has some responsiblity for site-selection decisions, with about one-half of these task forces or committees having the primary reponsibility. Very few companies report that an outside organization has the major responsibility for the site-selection decision, and none of the companies studied assigns sole responsibility to them.

The importance of the *final* site decision is demonstrated by the fact that, in nine out of ten cases, it is made by a very senior-level executive. For example, two-thirds of the companies report that the decision is made by the president, chairman or the board of directors.

Site Selection

Options for Expanding Capacity

Because plant location is one step in a company's capacity-planning process, it involves more than choosing a site. The steps in this process include consideration of: (1) the amount and quality of the company's present capacity; (2) the way in which existing plants fit together in a multiplant manufacturing strategy; and (3) expected capacity requirements. The site-selection decision usually comes at the end of this decision-making process.

If a company has forecast future capacity needs, and determined that it must expand production, it can add plant space in one of three ways—by expanding on-site, by relocating, or by establishing a new facility. On-site expansion is the most frequently used means of adding industrial capacity because of its low cost and minimal amount of disruption. In most cases, though, the long-term disadvantages of repeated on-site expansion—for example, delayed introduction of new technology, nonoptimal plant layout, management difficulties due to the increasing size and complexity of the operation—often lead to a decision to open a new facility or to relocate.

"Plant relocations," as one analysis points out, "are traumatic experiences for many managers and hence are likely to be avoided if at all possible. . . . Actual relocations occur at a rate of only 3 percent per year for manufacturing establishments of all sizes, and less than 1 percent per year for plants of at least 100 employees."[1] Of course, the cost of moving and disrupted production also often weigh against relocation. The establishment of new branch plants is a more common way of expanding capacity, especially among larger companies.

According to Roger Schmenner, five general types of multiplant manufacturing "strategies" can be identified in an analysis of new branch plants. Each one of these is based on specific cost or managerial considerations.

The five types are:

- product-plant strategy—each plant manufactures a distinct product or product line and serves the company's entire domestic market area;
- market-area plant strategy—each plant manufactures all or most of the company's product lines and serves a subnational market;
- product-market plant strategy—combines elements of both strategies;
- process-plant strategy—the production process is separated by plant, with several plants making the components of a complex product and shipping these components to an assembly plant;
- general-purpose plant strategy—these plants are flexible and can adapt to changing product needs.

In addition to expanded production or capacity needs, a company may also decide to relocate, expand or establish a new plant because of obsolescence or overcrowding of a particular plant; a shift in market location; unreasonably high overhead and production costs; and other similar reasons.

A significant finding from research on site selection is that most companies do not tend to locate their new branches primarily to take advantage of lower site costs. Rather, companies locate new plants, for the most part, on those sites that offer technological, managerial or other broad advantages. Long-term considerations are usually more important than short-term ones. Costs and benefits are evaluated, but the key factor is whether the location will allow the company to remain competitive for a long period of time.

Key Factors in Site Selection

The key factors considered in site selection address the particular demands of the industry, the manufacturing strategy of the company, and the function of the new plant. In its site-selection process, a company usually compiles a list of such key criteria. For some companies, there will be unique industry-specific requirements that are usually the major determinants, and other considerations will become secondary. In other cases, company-specific requirements are of primary importance.

Some considerations clearly dictate the geographic parameters of the search—for example, whether the new site must be in a particular region, state or metropolitan area. Canning and frozen-food companies, for instance, are usually tied to specific locations by the constraints of raw material availability. The nature of the manufacturing process may also limit the location choices—for example, space or structure requirements may necessitate a certain amount of land for horizontal layout and thereby eliminate inner-city locations where large enough tracts of land are not available. And environmental constraints may prohibit the location of certain industries with noxious emissions in densely populated areas.

[1]Roger W. Schmenner, "Look Beyond the Obvious in Plant Location," *Harvard Business Review*, January-February, 1979, pp. 128-129.

Picking a Particular Site

In selecting plant locations, less than a third of the companies studied focus primarily on sites in a single city, and less than one-sixth restrict themselves to sites within one state. Instead, the majority of the respondents focus on a region. Other research confirms this finding. A 1977 *Fortune* survey of the largest industrial corporations, for instance, indicated that most of the large firms began their search for plant locations on a multistate level.[8]

Proximity to headquarters is not a critical consideration for almost one-half the respondents to this survey, although one-third say that it is "sometimes" important. Indeed, Schmenner found that, although the trend is not strong, plant openings are likely to occur at a distance from corporate headquarters. He also found that more plants of all types (e.g., "stay-put plants," "on-site expansions") are found around divisional rather than corporate headquarters.[9]

Three out of four respondents to The Conference Board's survey indicate that the number of sites accorded serious consideration before a final one is chosen falls into the range of three to five (about two-fifths of the companies seriously consider three sites). Table 5 lists, in order of frequency of mention, the sources that are generally used by companies to identify possible sites. Obviously, most companies generate their own information, although they frequently supplement it with suggestions from other organizations and individuals.

For the most part, the criteria for site selection have not changed drastically over the last several years, according to a majority of those questioned. Those who did report changes mention such factors as energy and utility service considerations; local community and government support or acceptance; changes in marketing and transportation considerations; and such labor considerations as costs, availability of skilled and unskilled labor, and union activity or militancy.

The ultimate determinants of plant location are still usually economic and operational ones; plants are located where costs can be minimized and long-term returns maximized. The traditional factors considered by a company are: (a) marketing (including access to customers and raw materials) and transportation; (2) financial (including general cost reduction, taxes, etc.); (3) labor; and (4) production or site (including energy resources). Quality of life and business climate have recently gained in significance as well, although their importance varies somewhat by industry. For example, many high-technology companies are concerned with the cultural and educational environment because their professional personnel demand such amenities.

Table 5: Sources of Information Used to Identify Possible Sites

Source	Frequency of Mention[a]
In-company research or surveys	81%
Real estate brokers or appraisers	65
State or local government development agencies	63
Local chambers of commerce	35
Personal recommendations	29
Visits by state or local government officials	25
Major property owners or developers	21
Public-private development groups	13
Private development groups	10
Advertisements by state or local governments	4

[a]Base = 68 companies; multiple responses were permitted.

What *has* changed over the years is the *relative* importance of some of the factors to individual companies, especially in the absence of industry-specific requirements. However, a review of the literature reveals a consensus that, on an aggregate basis, it is difficult to determine the relative importance of various factors because factor needs differ from industry to industry, and from time to time, and from one type of plant to another.[10]

Factors in Urban-Site Selection

Two-fifths of the responding companies have *deliberately favored* urban sites over what they describe as equally attractive suburban or rural sites. Those that *do not deliberately favor* urban locations cite several general reasons. As noted, on a macro basis, the geographic dispersion of manufacturing to suburbs and rural areas is a long-established trend. On an individual company basis, firms usually choose locations based on specific economic and operational factors. These factors, particularly operational space requirements, may limit their site needs to nonurban areas. And for noneconomic reasons, such as quality-of-life considerations, some companies avoid city locations for certain of their plants.

[8]Miriam Hawley (Project Director), *Business Location Decisions—A Review of Literature*, Berkeley, Cal.: Pacific Consultants, 1981, p. 47.

[9]Schmenner, 1980 p. 123.

[10]George A. Reigeluth and Harold Wolman, *The Determinants and Implications of Communities' Changing Competitive Advantages: A Literature Review*. Washington, D.C.: The Urban Institute, 1981, p. 2.

Table 6: Ranking of Factors in Decision to Select Urban Sites over Equally Attractive Suburban or Rural Sites

	Factors (percent of respondents assigning rank order to the factor)						
Rank Order	Labor[1]	Financial[1]	Marketing[1]	Production or Site	Quality of Life	Commitment to Urban Revitalization[1]	Other
1	27%	24%	31%	8%	9%	2%	—
2	30	21	12	25	5	3	2%
3	19	21	11	22	13	2	2
4	11	24	9	25	16	—	2
5	5	5	18	9	33	11	—
6	2	—	5	—	9	55	2
7	—	—	—	—	—	3	—
No mention of factor	8	6	15	11	15	25	92
Totals	100%	100%	100%	100%	100%	100%	100%

[1]Details do not add to 100 percent because of rounding.

Note: 67 executives responded to this question. Although more than 90 percent assigned a rank for three factors, many did not assign a rank order for any factors beyond what they considered to be the three most important. Therefore, the rows across do not add to 100 percent.

The respondents to this survey have located at least one plant in a major city—but several have also located plants in nonurban locations. Since most of them have not deliberately favored urban locations, it would seem that their choice is motivated primarily by the traditional site-selection factors—marketing, labor, financial considerations, and so on. Table 6 presents the rankings of urban site-selection factors, by category.

It is apparent from this table that the traditional economic factors are still given the most weight when a company makes its site decision. Labor considerations, in particular, are most often cited as one of the two top factors. This is consistent with an earlier Conference Board finding in which more than 50 percent of the survey respondents pointed to one or another of the labor issues as a major factor in plant locations.[11]

Although financial considerations are not necessarily the most important to every manufacturer, certainly they are of major concern to almost all. And, although production or site is not frequently the number-one factor, its importance is apparent from its even distribution over the next three ranks. Marketing considerations obviously vary somewhat in importance and, as mentioned

[11]Leonard Lund, *Factors in Corporate Locational Decisions*, The Conference Board, Information Bulletin No. 66, 1979.

Table 7: Factors Considered in Urban-Site Selection

Factors Considered	Frequency of Mention[1]	Considered Very Important[2]
Marketing		
Proximity to major customers	77%	71%
Shipping or freight availability (transportation)	74	72
Proximity to major distributors	38	58
Financial		
Cost of land	79	44
General cost reduction	66	73
Cost of renovation against cost of new construction	66	62
Government incentives or inducements	65	52
Tax situation (present and future)	63	72
Availability of private financing	37	48
Labor		
Availability of skilled labor force	79	78
Labor costs	77	85
Availability of unskilled labor force	65	59
Union considerations	57	80